



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER FLOYD COUNTY
SHERIFF'S OUTGOING TAX SETTLEMENT 1998 TAXES**

February 19, 1999

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Sarah Jane Schaaf, Secretary, Revenue Cabinet

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff

Honorable John K. Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the former Floyd County Sheriff's Outgoing Tax Settlement – 1998 Taxes as of February 19, 1999. This tax settlement is the responsibility of the former Floyd County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Floyd County Sheriff's taxes charged, credited, and paid as of February 19, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Sarah Jane Schaaf, Secretary, Revenue Cabinet

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff

Honorable John K. Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

Based on the results of our audit, we have presented a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance:

- Former Sheriff Paul H. Thompson Should Eliminate All Prior Year Deficits
- Former Sheriff Paul H. Thompson Should Have Maintained An Adequate County Revenue Bond

In accordance with Government Auditing Standards, we have also issued a report dated October 12, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
October 12, 1999

FLOYD COUNTY
PAUL H. THOMPSON, FORMER SHERIFF
SHERIFF'S SETTLEMENT 1998 OUTGOING TAXES

February 19, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 791,092	\$ 1,033,160	\$ 3,238,890	\$ 877,080
Oil and Gas Properties	126,454	80,637	517,728	140,198
Tangible Personal Property	196,738	107,904	704,835	340,116
Intangible Personal Property				127,107
Fire Protection	3,824			
Franchise Corporation	144,444	113,622	528,088	
Increased Through Erroneous Assessments	774	903	2,775	336
Adjusted to Sheriff's Receipt	<u>(1,306)</u>	<u>(807)</u>	<u>(5,189)</u>	<u>(1,418)</u>
Gross Chargeable to Sheriff	<u>\$ 1,262,020</u>	<u>\$ 1,335,419</u>	<u>\$ 4,987,127</u>	<u>\$ 1,483,419</u>
<u>Credits</u>				
Discounts	\$ 14,322	\$ 14,919	\$ 56,775	\$ 19,498
Exonerations	17,137	20,037	64,707	36,613
Uncollected Franchise	59,678	47,363	223,364	
Transferred to Incoming Sheriff	<u>260,322</u>	<u>313,481</u>	<u>1,055,942</u>	<u>314,977</u>
Total Credits	<u>\$ 351,459</u>	<u>\$ 395,800</u>	<u>\$ 1,400,788</u>	<u>\$ 371,088</u>
Net Tax Yield	\$ 910,561	\$ 939,619	\$ 3,586,339	\$ 1,112,331
Less: Commissions *	<u>38,986</u>	<u>27,487</u>	<u>71,727</u>	<u>47,562</u>
Net Taxes Due	\$ 871,575	\$ 912,132	\$ 3,514,612	\$ 1,064,769
Taxes Paid	871,633	911,936	3,513,791	1,064,539
Refunds (Current and Prior Year)	<u>200</u>	<u>235</u>	<u>813</u>	<u>225</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (258)</u>	<u>\$ (39)</u>	<u>\$ 8</u>	<u>\$ 5</u>

* and ** See Page 4

FLOYD COUNTY
 PAUL H. THOMPSON, FORMER SHERIFF
 SHERIFF'S SETTLEMENT 1998 OUTGOING TAXES
 February 19, 1999
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,569,512
2% on	\$	3,586,339
1% on	\$	382,999

** Special Taxing Districts:

Wayland Fire District	\$	31
Betsy Layne Fire District		(63)
Garrett Fire District		15
Cow Creek Fire District		18
Left Beaver Fire District		(18)
Toler Creek Fire District		24
North Floyd Fire District		<u>(46)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u>(39)</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
NOTES TO THE FINANCIAL STATEMENTS

February 19, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff met the requirements stated above, and as of February 19, 1999, deposits were fully insured or collateralized at a 100% level with collateral held by the county official's agent in the county official's name.

FLOYD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
February 19, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 1998 through February 19, 1999.

Note 4. Interest Income

The former Floyd County Sheriff earned \$11,634 as interest income on 1998 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff's office should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff's office should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For 1998 taxes, the former Sheriff had \$528 in unrefundable duplicate payments or unexplained receipts and should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

FLOYD COUNTY
PAUL H. THOMPSON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

February 19, 1999

STATE LAWS AND REGULATIONS:

1) Former Sheriff Paul H. Thompson Should Eliminate All Prior Year Deficits

In our prior year audit reports, we reported the following deficits:

1989 Unmined Coal Tax Audit	\$ 6,745
1991 Property Tax Audit	5,315
1992 Property Tax Audit	16,663
1993 Property Tax Audit	<u>1,887</u>
 Total Deficit	 <u>\$ 30,610</u>

The cumulative deficits total \$30,600. As of September 22, 1999, the deficit balance has been reduced to \$9,354. The reduction of the deficit is due to deposits of personal funds totaling \$16,948; a \$3,795 credit given for a state penalty; and the accumulated interest and miscellaneous receipts in the amount of \$503. We recommend former Sheriff Paul H. Thompson eliminate the remaining \$9,354 deficit balance and satisfy all outstanding liabilities resulting from the respective audits.

Management Response:

Disagrees

2) Former Sheriff Paul H. Thompson Should Have Maintained An Adequate County Revenue Bond

During our audit, we found the former Sheriff's county revenue bond expired March 22, 1997, and was not renewed upon expiration. KRS 134.250 required the former Sheriff to have a bond "...sufficient to cover all money collected by him." KRS 134.250 also states that the bond must be approved by the Fiscal Court, recorded in the Fiscal Court Minutes, and filed by the Fiscal Court with the County Clerk. We recommend the Sheriff's office obtain a bond sufficient to protect the county from loss.

Management Response:

Former Judge would not sign the bond.

PRIOR YEAR:

The following findings have not been corrected and are repeated in the current year findings.

1) Former Sheriff Paul H. Thompson Should Eliminate All Prior Year Deficits

2) Former Sheriff Paul H. Thompson Should Have Maintained An Adequate County Revenue Bond

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff
Honorable John K. Blackburn, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the former Floyd County Sheriff's Outgoing Tax Settlement - 1998 Taxes as of February 19, 1999, and have issued our report thereon dated October 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of Comments and Recommendations.

- Former Sheriff Paul H. Thompson Should Eliminate All Prior Year Deficits
- Former Sheriff Paul H. Thompson Should Have Maintained An Adequate County Revenue Bond

In planning and performing our audit, we considered the former Floyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff
Honorable John K. Blackburn, Floyd County Sheriff
Members of the Floyd County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 12, 1999

